

**REPORT OF THE AUDIT OF THE
MONTGOMERY COUNTY
SHERIFF**

**For The Year Ended
December 31, 2001**



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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable B. D. Wilson, Montgomery County Judge/Executive
Honorable Fred Shortridge, Montgomery County Sheriff
Members of the Montgomery County Fiscal Court

The enclosed report prepared by Berger & Ross, PLLC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the Sheriff of Montgomery County, Kentucky, for the year ended December 31, 2001.

We engaged Berger & Ross, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Ross, PLLC, evaluated the Montgomery County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



**AUDIT EXAMINATION OF THE
MONTGOMERY COUNTY SHERIFF**

Calendar Year 2001

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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE
MONTGOMERY COUNTY SHERIFF

Calendar Year 2001

Berger & Ross, PLLC has completed the audit of the Montgomery County Sheriff's audit for calendar year 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presently fairly in all material respects.

Financial Condition:

Net receipts of the Sheriff's calendar year 2001 Fee Account decreased by \$1,814 from the prior calendar year, resulting in excess fees of \$4,911 as of December 31, 2001. Revenues increased by \$93,879 from the prior year and disbursements increased by \$95,693.

Report Comments:

- The Sheriff Should Publish The Annual Financial Statement
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits And Have A Written Security Agreement
- The Sheriff Has A Lack Of Adequate Segregation Of Duties

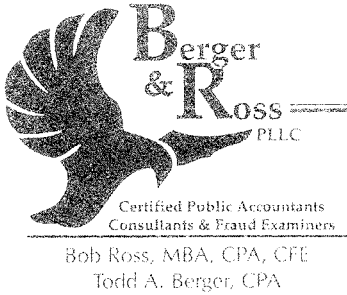
Deposits:

The Sheriff's deposits were not properly insured and collateralized by bank securities or bonds. There was no written security agreement.

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To the People of Kentucky
Honorable Paul E. Patton, Governor
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Dana Mayton, Secretary, Revenue Cabinet
Honorable B. D. Wilson, Montgomery County Judge/Executive
Honorable Fred Shortridge, Montgomery County Sheriff
Members of the Montgomery County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Montgomery County, Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the Montgomery County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepared the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the receipts and disbursements of the Sheriff for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable B. D. Wilson, Montgomery County Judge/Executive

Honorable Fred Shortridge, Montgomery County Sheriff

Members of the Montgomery County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 19, 2002, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Publish The Annual Financial Statement
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits And Have A Written Security Agreement
- The Sheriff Has A Lack Of Adequate Segregation Of Duties

Respectfully submitted,



Berger & Ross, PLLC

Audit fieldwork completed -
September 19, 2002

MONTGOMERY COUNTY
FRED SHORTRIDGE, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 2001

Receipts

Federal Grants		\$ 68,748
State Payments:		
Finance and Administration Cabinet Payments	\$ 14,154	
Cabinet for Human Resources	3,221	
KLEFPF Grant	<u>40,019</u>	57,394
Circuit Court Clerk:		
Sheriff Security Service	\$ 13,803	
Fines and Fees Collected	<u>20,523</u>	34,326
Fiscal Court:		
Contribution	\$ 165,515	
Sheriff Salary	59,948	
Sheriff Incentive Pay	<u>2,080</u>	227,543
County Clerk:		
Delinquent Taxes		3,187
Commission on Taxes Collected		260,992
Other Fees on Tax Collection:		
10% Sheriff's Penalty	\$ 25,696	
Advertising Fee	<u>755</u>	26,451
Fees Collected for Services:		
Auto Inspections	\$ 10,372	
Serving Papers	27,847	
Accident Reports	1,209	
Carrying Concealed Deadly Weapon Permits	6,975	
Patrol - Camarge	7,500	
Travel	<u>4,326</u>	58,229
Miscellaneous		14,505
Interest Earned		1,995
Borrowed Money:		
State Advancement		<u>125,000</u>
Total Receipts		\$ 878,370

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
 FRED SHORTRIDGE, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 2001
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies Gross Salaries	\$ 366,134	
Part-time Salaries	18,528	
Highway Patrol Overtime	12,378	
Overtime	29,571	
State Incentive Pay	<u>38,386</u>	\$ 464,997

Employee Benefits-

Employer Match FICA	\$ 33,026	
Employer Match Retirement	33,998	
Employer Insurance	<u>38,180</u>	105,204

Contracted Services-

Advertising	\$ 329	
Transportation Expense	<u>1,217</u>	1,546

Materials and Supplies-

Office Equipment and Supplies	\$ 13,252	
Police and Uniform Supplies	<u>2,462</u>	15,714

Auto Expense-

Maintenance and Repairs	\$ 3,104	
Gasoline	<u>28,076</u>	31,180

Other Charges-

Bank Charges	\$ 90	
K-9 Expense	7,243	
Communications	1,287	
Dues	25	
Jury Expense	281	
Training Expense	3,073	
Postage	55	
Carrying Concealed Deadly Weapon Permits	4,130	
Miscellaneous	<u>2,160</u>	18,344

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
 FRED SHORTRIDGE, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 2001
 (Continued)

Disbursements (Continued)

Capital Outlay-		
Vehicle Purchase	\$ 5,000	\$ 5,000
Debt Service-		
State Advancement	\$ 125,000	
Fiscal Court's Vehicle Lease	44,446	169,446
Total Disbursements		\$ 811,431
Net Receipts		\$ 66,939
Less: Statutory Maximum	\$ 59,948	
Incentive Pay	2,080	62,028
Excess Fees Due County for Calendar Year 2001		\$ 4,911
Less: Payment to County Treasurer - February 19, 2002	\$ 2,469	
Less: Payment to County Treasurer - September 19, 2002	2,442	4,911
Balance Due at Completion of Audit		\$ 0

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
NOTES TO THE FINANCIAL STATEMENT

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentality's, obligations and contracts for future delivery or purchase of obligations back by good faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS) pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Non-hazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for non-hazardous employees was 7.17 percent for the first six months of the year, and 6.41 percent the last six months of the year.

MONTGOMERY COUNTY
NOTES TO THE FINANCIAL STATEMENT
December 31, 2001
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspects of benefits for non-hazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement System's annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of December 31, 2001, the bank balances were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond. However, as of December 7, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$484,119 of public funds uninsured and unsecured. In addition, the Sheriff did not have a written agreement with the depository institution securing the Sheriff's interest in the collateral.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 7, 2001:

	<u>Bank Balance</u>
Insured with FDIC	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	4,470,784
Uncollateralized and uninsured	<u>484,119</u>
Total	<u>\$ 5,054,903</u>

MONTGOMERY COUNTY
NOTES TO THE FINANCIAL STATEMENT
December 31, 2001
(Continued)

Note 4. Lease

The Office of the County Sheriff is committed to a lease agreement with Xerox for a copier, maintenance agreement and supplies. The agreement requires a monthly payment of \$175.58 for 60 months to be completed in December 2006. The total balance of the agreement is \$8,427.84 as of December 31, 2001.

Note 5. Health Insurance Premiums

KRS 61.405 allows county fee officials to purchase twelve (12) months of health insurance coverage for their employees, if excess fees are available. Therefore, the expenditures are allowable. The Attorney General has issued opinion 92-108, which claims the statute is unconstitutional and discriminatory. The Attorney General also issued OAG 94-11 on February 25, 1994, stating health or medical insurance provided uniquely for an official and not in connection with a government program providing benefits to all county employees would be personal in nature.

COMMENTS AND RECOMMENDATIONS

MONTGOMERY COUNTY
FRED D. SHORTRIDGE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

Calendar Year 2001

STATE LAWS AND REGULATIONS:

1. The Sheriff Should Publish The Annual Financial Statement

The Sheriff did not publish an annual financial statement. KRS 424.220(6) requires the financial statement be published within sixty (60) days after the close of the calendar year.

County Sheriff's Response:

I will make changes as required.

2. The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits And Have A Written Security Agreement

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of December 31, 2001, the bank balances were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond. However, as of December 7, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$484,119 of public funds uninsured and unsecured. In addition, the Sheriff did not have a written agreement with the depository institution securing the Sheriff's interest in the collateral.

County Sheriff's Response:

I, my department staff thought the pledged securities were in place at the time of audit. I will check with the bank in the future to make sure the pledges equal the total amount.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

3. The Sheriff Has A Lack of Adequate Segregation of Duties

We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control such as functions prescribed by statutes and regulations, and by budgetary constraints. Due to limited staff, a proper segregation of duties may be impossible. However, the lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness. We recommend the Sheriff establish a proper segregation of duties over his operations.

MONTGOMERY COUNTY
FRED D. SHORTRIDGE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
Calendar Year 2001
(Continued)

3. The Sheriff Has A Lack of Adequate Segregation of Duties (Continued)

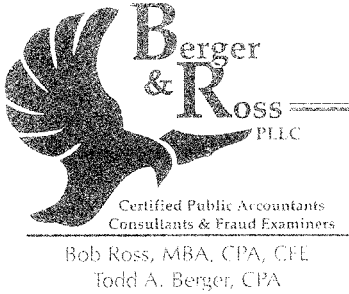
County Sheriff's Response:

I am limited because of staff and budget as needed.

PRIOR YEAR

- The Sheriff Was Not Properly Collateralized
- There Was Not An Adequate Separation Of Duties
- The Sheriff Did Not Publish His Financial Statement

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Association of Accountants and Tax
Preparators
National Association of Accountants
National Association of Tax Preparers
Government Auditing Standards Association

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Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Montgomery County Sheriff for the year ended December 31, 2001 and have issued our report thereon dated September 19, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Montgomery County Sheriff's financial statement for the year ended December 31, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Sheriff Should Publish The Annual Financial Statement
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits And Have A Written Security Agreement

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Montgomery County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The Sheriff Has A Lack Of Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above, we consider to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", written in a cursive style.

Berger & Ross, PLLC

Audit fieldwork completed -
September 19, 2002

